

CONSENT AGENDA ITEM

Date: July 26, 2017

Item: Consideration of adopting Resolution 2017-10 establishing a Fiscal Reserve Policy for the City of Trinidad

Summary and Recommendation:

The proposed Reserve Policy will help formalize the City's approach towards establishing and utilizing Reserve funds. The policy sets a target of maintaining combined General Fund Reserves of 150% of the annual GF operating budget for emergencies and budget stabilization. It also creates a framework for Capital Asset and Special Project Reserves. The details of those Capital Asset Reserves will be developed in conjunction with the completion of a Capital Improvement Plan this year. This proposed Policy will be adopted by Resolution, and as such can be revised at the Council's discretion going forward.

Staff recommends the Council:

Adopt Resolution 2017-10 establishing a Fiscal Reserves Policy for the City of Trinidad, and direct staff to work with our Auditor and Accountant to implement this Policy.

Background: Reserves are a critical part of how cities plan for and respond to fiscal challenges, infrastructure replacement, and cash flow management. Fiscal challenges can include natural disasters, other unexpected costs or reductions in revenue, and economic downturns. Reserves also provide a framework to plan and save for the maintenance and replacement of the City's infrastructure and capital assets. Collectively, reserves provide the City with time and flexibility to respond to financial challenges without disrupting the provision of essential City services.

The City currently has significant 'undesignated' General Fund and Water Fund balances. The City has some established Reserve Funds, but has not formally designated most of our available fund balances to those Funds. The proposed Reserves Policy will help formalize the City's approach towards establishing, funding, and utilizing reserves.

Appropriate Reserve Fund Targets

An important part of the Reserves Policy involves setting the appropriate Fund target levels. General guidance for California Cities, and surveys of City Reserve Policies suggest that an overall General Fund Reserve of 20% of annual operating budget is considered a healthy reserve. Cities vary widely, and some CA cities have designated General Fund Reserve targets of up to 100% of annual GF operating budgets.

The attached Resolution reflects the Council's direction after discussion at the July 18th 2017 Council meeting for a primary General Fund Reserves target of 150% of the annual General Fund operating budget (75% for Emergency Reserves and 75% for Budget Stabilization Reserves). This target is based on the following reasoning:

Risks relative to our size:

A 20% reserve target results in a large absolute number for most Cities – many millions or tens of millions of dollars. But Trinidad is so small that 20% of our annual GF budget is only \$120,000. A single landslide, lawsuit, or unexpected infrastructure expense could easily exceed that value. The City has approached insolvency over legal costs in the past, and currently faces a landslide threatening Edwards St. and the Memorial Lighthouse with potential costs of many hundreds of thousands of dollars.

Dependence on variable revenue linked to larger economy:

The two largest General Fund revenue sources for Trinidad are Sales tax and TOT. Together they have comprised two thirds of General Fund revenue in recent years. Both sources are closely linked to larger current economic conditions, and could decline significantly in a serious economic downturn. The non-renewal of the Cell Tower lease and the potential loss of property tax, TOT, and sales tax from the Trinidad Harbor Area are current examples of upcoming impacts to City revenues.

Capital Assets and Special Projects

In addition to reserves intended to weather financial crises, this Policy establishes a framework for designating General Fund Capital Asset and Special Project Reserves to plan and save for the replacement and repair of City infrastructure. A Capital Improvement Plan will be developed this year and will play a significant role in developing more detailed Capital Reserve plans for both our Water Fund and General Fund.

Flexibility

The proposed Reserve Policy includes regular review by the Council, and can be revised or amended by Resolution at the Council's discretion.

Fiscal Impact

There is no direct expense related to this Policy. The impact on the City's financial statements would be as follows (based on the approved FY 2018 GF operating budget of \$612,000):

Undesignated GF balance as of the last audit report:	\$1,276,000
Emergency Reserve Fund Target:	\$459,000
Budget Stabilization Reserve Target:	\$459,000
Capital Asset and Special Project Reserves (minimum)	\$306,000
Remaining Undesignated balance:	\$52,000

The proposed Policy proposes assigning any remaining undesignated general fund reserve balance to the Capital Asset and Special Project Reserves This would result in final Reserve Fund balances as follows:

Emergency Reserve Fund:	\$459,000 (at target)
Budget Stabilization Reserve Target:	\$459,000 (at target)
Capital Asset and Special Project Reserves	\$358,000 (306K target+52K surplus)

Staff will return to Council with a more detailed breakdown of the Capital Asset and Special Project Reserves as the Capital Improvement Plan is completed.

Staff recommends the Council:

Adopt Resolution 2017-10 establishing a Fiscal Reserves Policy for the City of Trinidad, and direct staff to work with our Auditor and Accountant to implement this Policy.

Attachments:

Proposed Resolution 2017-10 establishing the City of Trinidad Fiscal Reserves Policy